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SUBJECT: GEBZE INDUSTRY SEES AWAKENING ECONOMY

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12. (SBU) Summary: Industrialists in the Marmara region industrial town of Gebze told visiting P/E Section Chief and Poloff that recent positive economic developments are finally beginning to be felt at their level, and that they are fairly bullish on the region's economic prospects. While exports remain the primary engine of economic growth (though they have been hurt by low profit margins as a result of the strong Turkish lira), our interlocutors reported that they are beginning to see a pickup in domestic demand as well. As a result, all firms reported a significant increase in employment over the last eight months, with most increasing their long-frozen workforces by 20-30 percent. A number of problems continue to cloud the business horizon, however, with high energy prices, high taxes, and unfair competition from the informal sector topping the list. Gebze businessmen give the AK government high marks for its initial year, commenting that it is among the most "business friendly" governments they have seen. End summary.

13. (SBU) An Industrial Center: An important center in the industrial heartland of Turkey's Marmara region, Gebze is a short 40 kilometers outside of the Istanbul city center, with convenient highway, rail and sea connections to Central Asia, the Middle East and Europe. Local business officials proudly point to the area's dynamic industrial sector, which now accounts for 13 percent of Turkey's industrial production. During an October 30 day trip to the region organized in conjunction with the Gebze Industrialists and Businessmens' Association (GESIAD), P/E Chief and Poloff toured a number of industrial facilities, ranging from low-tech flooring and wood products production, to more high-tech production of automobile radiators, automotive glass, and copper tubing.

14. (SBU) Exports and domestic demand: All the firms we visited reported a sharp uptick in demand, which had prompted them to expand employment over the last 9 months. Kale Oto Radyator, for instance, noted that its work force had grown by 50 percent to approximately 200 people, while Sarkuysan, a manufacturer of copper wire and tubing and one of Turkey's leading industrial success stories, noted that employment has increased 30 percent to 450 employees. Turkey's recent export boom explains the companies' success, both directly and indirectly. Kale, for instance, supplies 95 percent of the radiators used in the Turkish automotive industry, so that while its sales are largely domestic, they form part of a sector that has played a key role in leading Turkish exports to record levels this year. Olimpia Oto Camlari Sanayi and Ticaret, a leading auto glass manufacturer, has benefited similarly, though it does not dominate its market to the same extent. Sarkuysan, meanwhile, enjoys a dominant local market share while also exporting half of its output. Domestic producers are also seeing an uptick in demand, though Yongapan Wooden Products General Manager Azem Gungor noted that his Turkish market is largely saturated, so the firm is currently focusing more on overseas opportunities and expanding its factories in Bulgaria and Romania and looking to open a new operation in Bosnia.

15. (SBU) Familiar Concerns: Gebze businessmen echoed traditional complaints about Turkey's relatively unfriendly business environment, pointing especially to concerns about high Turkish energy prices. Two of the firms we visited, Sarkuysan and Yongapan, produce much of their own energy, but high natural gas prices and the high cost of electricity for the 20 percent of their energy needs they buy on the open market crimp profits. Sarkuysan VP Sevgur Arslanpay listed high energy prices as a major obstacle to his firm's international competitiveness and their single biggest complaint about the local business environment. Gungor pointed to sector specific problems: the high cost of forest

products, which he said were three times the level of neighboring countries, largely because of government control of forests. While logistics and the weight of many of its products shield Yongapan from international competition, the difficulties have led the company to focus its expansion more on its foreign than its domestic operations.

16. (SBU) Informal Economy: Among other complaints were high tax rates, including the lack of inflation accounting (which the government has promised to implement next year), which can lead to diminution of a company's capital, and the difficulty in raising financing (most of our Gebze interlocutors pointed to self-financing as the major source of their funds-- only Kale noted that it has historically been able to secure bank financing at very low rates, perhaps stemming from its market dominance in an export-oriented industry). Lower tech companies also complained about unfair competition from companies that operate in the shadows, avoiding payment of labor and other taxes. For companies like Sarkuysan, which require extensive investment and high tech processes, however, this is not an issue.

17. (SBU) Plaudits: Gebze businessmen were largely complimentary about the new Turkish government, crediting it with a more business-friendly attitude than its predecessors, and arguing that the results of the past year show its competence in addressing economic issues. As one would expect from members of an industrialists' organization close to Islamic spiritual leader Fethullah Gulen, the businessmen we spoke to appeared pious. Likewise, as one would expect from businessmen representing not only Gulenist but, more broadly, Anatolian values, several criticized President Sezer's decision not to invite the head-scarved wives of AK parliamentarians to his independence day reception. Kale President Celal Kaya even expressed support for the government's plans to dispatch Turkish soldiers to Iraq ("necessary," he said, "to protect the Turkmen" and to dissuade the Kurds from forming their own state). There was some concern that AK's handling of the imam-hatip (preacher) schools and higher education council reform was clumsy and untimely, but overall our interlocutors judged AK's moderate face to be sincere, and expressed hope that it would continue to focus on the economy rather than other issues.

18. (SBU) Comment: If these companies are an indicative sample, exports may turn out to be the engine that pulls Turkey out of the lingering effects of the 2001 economic crisis. Each of the companies we visited has been making serious investments in production capacity, often by purchasing foreign equipment, as well as by hiring more workers, holding out the prospect of a pick-up in local demand. The view of politics from this industrial heartland is that this government has scored big points by taking steps to stabilize the economy and improve the business environment. AK will continue to enjoy widespread support here as long as fixing the economy remains their top priority.

19. (SBU) Behind the scenes wrangling that preceded the trip also set in bold relief the odd mixture of xenophobia and openness to world markets that can characterize Turkish business. We learned from Mustafa Gunay, whose Business Life Association (ISHAD) worked with its affiliate GESIAD to organize the program, that one company was hostile to the planned visit, fearing that we represented American companies that wanted to either steal his "cutting-edge" technology or buy it out from under him cheaply. Gunay responded by asking what century he was living in, and stressing the need for mid-sized Turkish companies to reach out to and cooperate with foreign partners. The exchange highlights the public relations benefit of showing the flag in outlying industrial districts, and we plan to follow-up by organizing a "Doing Business with the U.S." program early next year in cooperation with GESIAD.

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